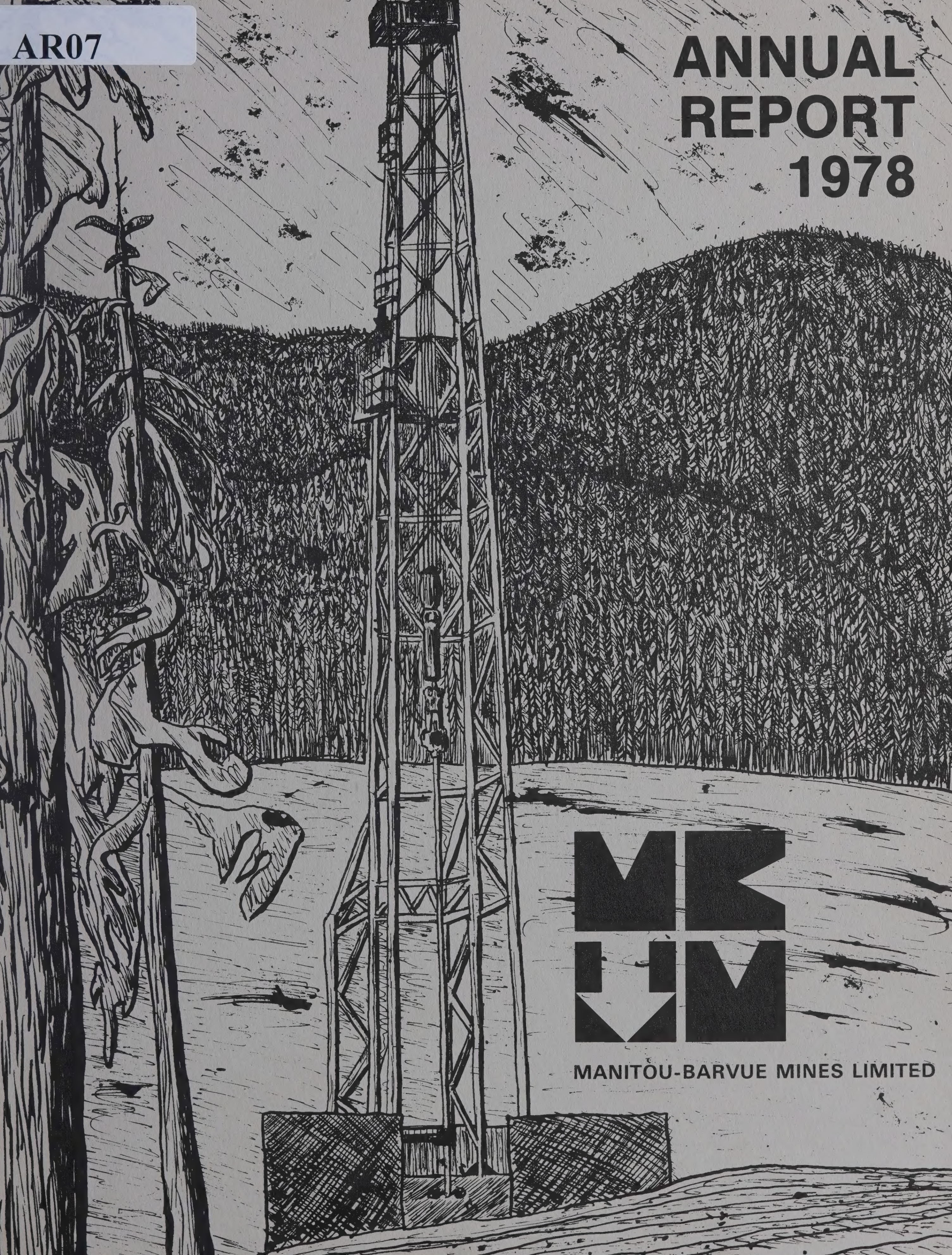
ANNUAL REPORT 1978



MANITOU-BARVUE MINES LIMITED

Manitou-Barvue Mines Limited

Directors & Officers:	H. J. Mockler *President & Director*	Toronto, Ontario
	W. B. Hansen *Vice-President & Director*	New York, N.Y.
	R. A. White *Director*	Toronto, Ontario
	S. B. Bird *Sec.-Treas. & Director*	Toronto, Ontario
	V. L. Cherry *Director*	Miami, Florida
Auditors:	Leebosh, April, Curtis & Arbess	Montreal, Quebec
Bankers:	Bank of Nova Scotia	Toronto, Ontario
Stock Exchange Listing:	Toronto Stock Exchange	Toronto, Ontario
Registrar & Transfer Agent:	Guaranty Trust	Toronto, Ontario

Manitou-Barvue Mines Limited

Directors' Report

To the Shareholders

The Directors are pleased to submit to the shareholders for their interest and information the Annual Report of the company for the fiscal year ended December 31, 1978. The report contains the Audited Consolidated Balance Sheet, Statement of Income, Statement of Deficit and Statement of Changes in Financial Position. Shareholders will note that there has been a further deterioration in the company's working capital as well as in its total assets. The decline in these accounts was solely attributable to the ill-fated investments by the former management in oil concessions in the Republic of the Cameroon, West Africa. The circumstances surrounding these activities were highlighted in last year's Annual Report and require little further elaboration in this statement. It now appears that there will be no recovery of the $1,150,000 U.S. spent to acquire an 8% interest in the 649,000 acre concession and, accordingly, this amount has been written off in the accounts. With regard to the 0.495% royalty interest on 1.7 million acres purchased at a cost of $500,000 U.S., our recent information is that further exploration will be conducted on this block during the coming summer in an effort to delineate the most prospective areas. It is the Directors' view, however, that considering the lack of any positive results on this concession so far a conservative approach should be taken in connection with recording its value on the company's books. Therefore $250,000 U.S. ($274,000 Canadian) has been written off in the books. Unless there is substantial change in this situation the remaining amount may be written off in the 1979 fiscal year.

The income statement reflects lower investment revenues and continuing high costs, particularly in the area of Administrative and General Expenses. In addition, Professional and Consulting Fees, while being lower than the previous year, were still disproportionate to the company's cash flow. It should be pointed out that a large part of the total operating costs were incurred as a result of problems that were encountered in completing the audit last year and more particularly audit fees which totalled nearly $100,000. For the coming year it is expected that gross revenues will improve moderately while costs will decline substantially.

The 1978 fiscal year was a period fraught with many difficulties for the company. The major investment in African petroleum concessions not only resulted in an erosion of capital but also created serious accounting problems, which, in turn, caused the regulatory authorities to impose a Cease and Desist Order on trading in the shares followed by a suspension of trading on the Toronto Stock Exchange. Because of this situation, most of management's time last year and the early part of 1979 has been directed towards resolving these problems. At this juncture we are happy to report that these difficulties have been overcome. The Cease and Desist Order has been lifted and the shares reinstated for trading on the Toronto Stock Exchange. Efforts can now be aimed in more positive and productive directions.

In this connection it should be noted that since the holding of the last Annual Meeting significant progress has been made. Manitou-Barvue has received its first income from the sale of oil from a discovery well, drilled in the Sylvan Lake area of Alberta, in which it holds a 4.0% interest. In addition, the company recently purchased a 1.9486% interest in two producing gas wells in the YoYo Field located in Northern B.C. The gas is subject to a long term minimum take-or-pay contract and should produce revenue for many years to come. The total cost of this interest was about $500,000 of which $325,000 was provided by a Canadian chartered

bank loan at favourable interest rates and repayable over a six year period. The company, in conjunction with other operators, has also acquired varying interests in several oil and gas prospects in Alberta and British Columbia. More details of these land holdings along with location maps are included under the Exploration and Development Section.

Management intends to pursue aggressively a policy of oil and gas exploration. Such exploration will be confined to acquiring small interests in several prospects as opposed to major ownership in few properties. This will enable the company to be able to increase its exposure without taking undue risks in any one situation. Despite the loss of capital sustained in the last two years, the company remains adequately financed to carry out its programme. In addition, during the current year we will be receiving the balance of the funds owing to the company from the sale of its mining properties. It is also our intention to dispose of other non-essential non-revenue producing assets. It should be noted that the company is carrying on its books about $5.0 million of undepreciated capital cost allowances. These undepreciated capital costs can be used against taxable oil and gas revenue.

The company has made an application to the regulatory authorities to dispose of some of its holdings of Quebec Manitou Mines Limited, currently a 69% owned subsidiary. The proceeds from the sale of these shares will be added to working capital.

Although the company experienced some trying times in the past two years, management believes these problems are behind us and is optimistic about the future. If we are to achieve our objectives, considerable effort and support will be required by our employees and shareholders. With the past few months as an indication, we are confident such effort and support will be forthcoming. For this, management wishes to express its gratitude.

On behalf of the Board of Directors,

H. J. Mockler,
President.

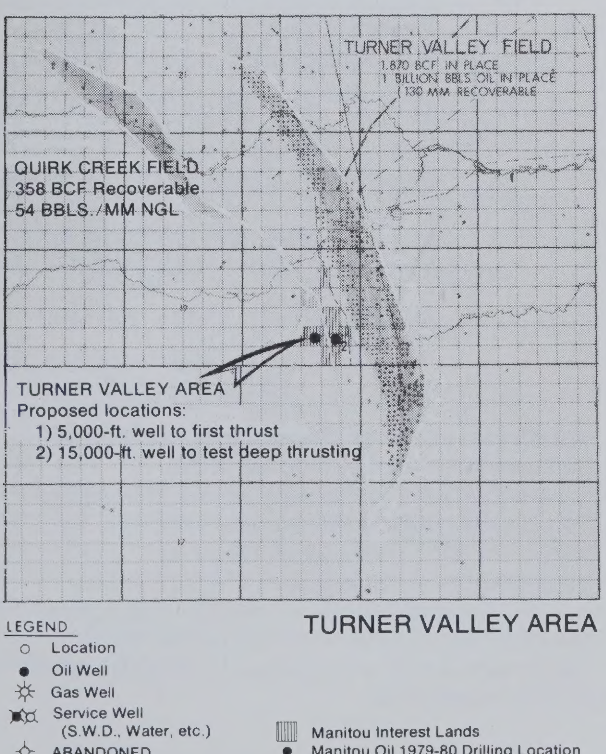
Manitou-Barvue Mines Limited

EXPLORATION AND DEVELOPMENT

During the past few months Manitou-Barvue has been successful in acquiring varying interest in several oil and gas prospects in Western Canada. While the net participation in individual prospects is not large in terms of capital exposure, the potential of each is such that a discovery could be very meaningful. The following is a brief description of some of the more important land holdings accompanied by location maps.

Turner Valley

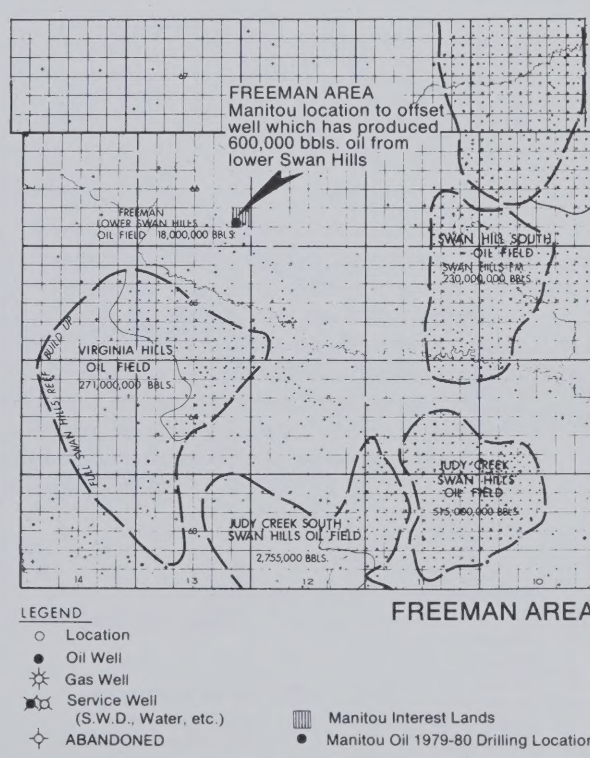
As part of its initial efforts to gain a foothold in Western Canadian petroleum opportunities, Manitou-Barvue puchased a 10% interest in six sections of land (3,840 acres) in the Turner Valley



area of Alberta. The block lies immediately adjacent to the west of the Turner Valley oil and gas field which is the oldest and one of the largest accumulations of hydrocarbons in Canada. Recent re-evaluations of the Devonian structures in the region indicates the presence of major thrust faults that would have caused a downward shifting to the west of a portion of the Turner Valley field. Two wells are planned by the operators during the coming summer to test this theory, the locations of which are shown on the accompanying map. If either of these wells are successful the potential reserves would be of major proportions. The cost of this programme will be in the order of several millions of dollars and under the present circumstances would be too risky for the company to maintain its full 10% exposure. Accordingly, prior to spud date, Manitou will attempt to interest other parties to assume its share of drilling expenses for a portion of its ownership in the play.

Freeman Area

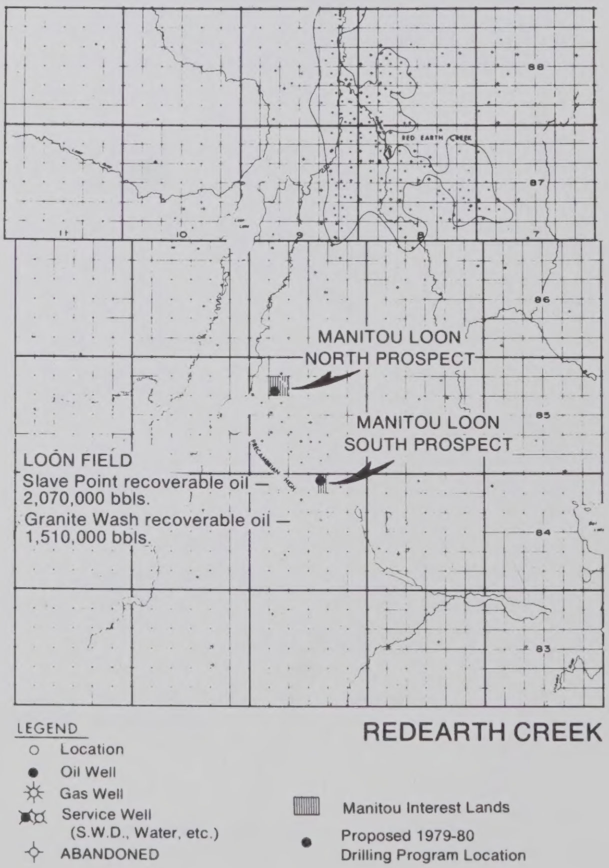
At a land sale held in late February, Manitou in participation with other partners, was successful in purchasing the petroleum rights to one section of land (640 acres) in the Freeman Area of Alberta. Our interest in the play is 10% acquired at a cost of $25,200. Geological interpretation suggests that the prospect is



situated on the front edge of the lower Swan Hills reef trend and could have a reef thickness of between 35 and 40 feet. Based on the production history of the offsetting lands (one well on which has produced nearly 600,000 barrels alone) the potential reserves underlying the section would be in the order of 3,500,000 barrels. Drilling is expected to commence sometime later this year.

Red Earth Creek — Loon Area

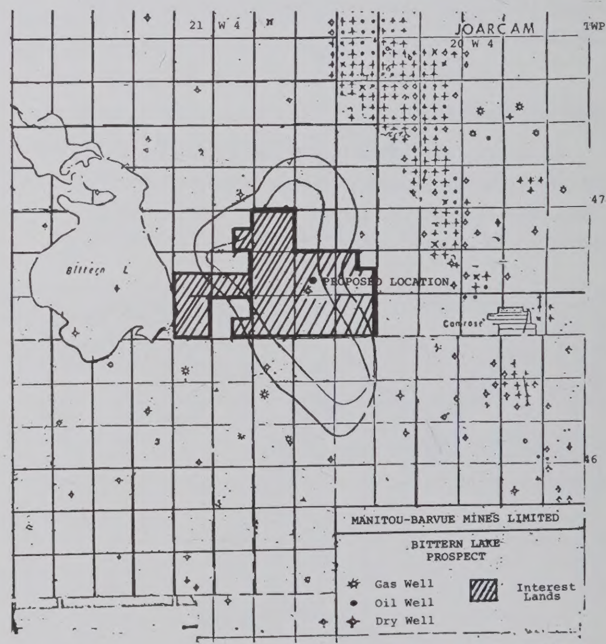
Varying interests were acquired in one and one-half sections equivalent to 980 acres in the Loon Area of Northern Alberta in March of this year. The acreage, divided in two blocks, lies at either end of the currently producing Loon Field. Geological interpretation, coupled with seismic and offsetting well controls demonstrates the high probability than an extension both to the north and south of the two favourable producing horizons, the Slave Point and Granite Wash formations will be found. A test well will probably be undertaken before the year is out.



REDEARTH CREEK

Bittern Lake — Alberta

Manitou-Barvue acquired varying interests ranging from 6¼% to 12½% in 9½ sections of land totalling 6,120 acres in the Bittern Lake Area of Alberta earlier this year. The land spread covers a Paleozoic high previously found by a well drilled in 1952 and subsequently confirmed by seismic surveys. Data obtained from the old well indicates the presence of 20 feet of the Glauconite sands which is the main producing horizon in the Chigwell Field a few miles to the south. The estimated potential reserves underlying these lands range up to 12.0 million barrels. A test well located in lsd 10, section 11, township 47, range 21W4M is expected to commence shortly and results should be available in a few weeks time.



BITTERN LAKE AREA

East Birley Prospect — British Columbia

Manitou, in conjunction with other partners, in January of this year acquired a drilling reservation covering some 6,900 acres of land in the East Birley Area of Northern British Columbia. The company's net interest in the play

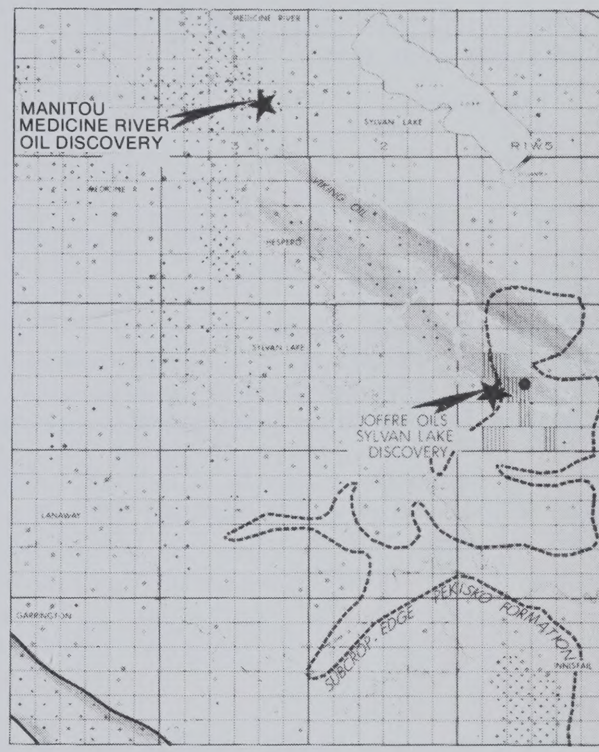
is 5%. The prospect is in a proven area with excellent Bluesky Formation gas reservoir parameters. In addition, it is believed that there is a good possibility that the Halfway Formation, a highly productive horizon in this region could also underlie the reservation. Based on surrounding and offsetting wells it is estimated that these lands could contain potential reserves of 44 billion cubic feet of natural gas. A well, to be drilled to a depth of 4,200 feet is planned for late 1979 or early 1980.

YoYo Field — British Columbia

On April 1st, Manitou purchased a 1.9486% interest in two producing gas wells in the YoYo field of Northern British Columbia for $500,000. Of this amount $325,000 was provided by a Canadian chartered bank at favourable interest rates. The wells have been on stream for several years and have demonstrated stable production characteristics and will continue to produce for many more years. The initial rate of return on investment is estimated to be about 14.8% but is expected to improve considerably as a result of higher gas prices already announced. For the first few years most of the revenue from this project will be dedicated to servicing the bank loan. However, as the loan is reduced more of the income will flow to the company to be used for other exploration and development purposes.

Sylvan Lake — Alberta

Late last year the company participated in the drilling of a Medicine River oil test in the Sylvan Lake area of Alberta. The well proved to be successful and is currently flowing at about 75 barrels a day. Manitou's interest in the well is a net 4.0% and was acquired at a cost of about $1,000. The well is now on stream and revenue is being derived therefrom. We look forward to receiving income from this venture for many years to come.



SYLVAN LAKE AREA

LEGEND
- ○ Location
- ● Oil Well
- ☼ Gas Well
- Service Well (S.W.D., Water, etc.)
- ABANDONED
- ------- Subcrop Edge Pekisko Formation
- Manitou Interest Lands — Sylvan Lake Area — Crimson — Medicine River
- ★ Recent Manitou Discovery Wells — Joffre Medicine River 4-14-39-3W5

Outlook

Despite our difficulties of the past year management is of the opinion that the company is now on firmer ground. Income is being received from both oil and gas and we have several interesting exploration targets which will be tested over the next few months. Among these, the Bittern Lake and Freeman prospects have considerable potential for oil discoveries. On balance, we look forward to an active and successful year.

Manitou-Barvue Mines Limited

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

As At December 31, 1978

Assets	December 31 1978	1977
Current		
Cash and short-term deposits	$ 118,637	$1,650,884
Short-term deposits set aside for payment of interest in petroleum and natural gas properties (Note 3)	200,000	350,000
Marketable securities, at cost (quoted market value — $1,078,872; 1977 — $111,160)	1,121,452	123,390
Accounts receivable	46,047	21,664
Receivable on sale of mining operation (Note 2)	414,830	194,642
Notes receivable (Note 2)	—	650,000
Accrued interest receivable	21,249	25,627
	1,922,215	3,016,207
Other		
Receivable on sale of mining operation (Note 2)	—	233,400
Investment in inactive subsidiary companies	1	1
Property held for resale, at cost	38,452	105,107
Furniture and equipment, at cost less accumulated depreciation of $219,029 — ($182,140 in 1977)	31,743	68,067
Mining properties and rights (Notes 4 & 5)	248,144	245,644
Deferred exploration and development expenditures (Notes 4 & 5)	581,841	583,765
Interest in petroleum and natural gas properties and rights (Notes 3 & 5)		
Canada	648,414	500,000
United Republic of Cameroon	274,000	548,001
	1,822,595	2,283,985
	$3,744,810	$5,300,192

Approved by the Board

H. J. MOCKLER, Director

R. A. WHITE, Director

Liabilities	December 31 1978	December 31 1977
Current		
Accounts payable and accrued liabilities	$ 753,745	$ 248,263
Payable on purchase of interests in petroleum and natural gas properties and rights (Note 3)		
Canada	200,000	350,000
United Republic of Cameroon	—	1,422,884
	953,745	2,021,147
Deferred Income Taxes	26,300	26,300
Interest of Minority Shareholders in Subsidiary Company	414,709	425,773

SHAREHOLDERS' EQUITY

	1978	1977
Capital Stock		
Authorized — 8,500,000 shares without par value		
Issued — 3,836,179 shares (3,836,179 in 1977)	3,369,940	3,369,940
Deficit	(701,739)	(224,823)
	2,668,201	3,145,117
Deduct subsidiary company's holding of 554,427 shares of the company at value assigned thereto (554,427 shares in 1977) (Note 6)	318,145	318,145
	2,350,056	2,826,972
	$3,744,810	$5,300,192

Consolidated Statement of Income

	Year Ended December 31, 1978	1977
Revenue		
Investment	$ 205,966	$ 402,729
Rental and miscellaneous	40,299	40,000
	246,265	442,729
Expenses		
Administrative and general	277,536	234,347
Depreciation	43,779	42,421
Exploration expenditures written off	19,698	10,996
Interest	57,401	–
Professional and consulting fees	87,448	170,484
Retiring allowance to former officer	–	125,000
	485,862	583,248
	(239,597)	(140,519)
Share in loss of associated company	–	(18,335)
Interest of minority shareholders in subsidiary company's loss	11,064	7,378
Loss before undernoted items	(228,533)	(151,476)
Income from discontinued mining operation (Note 2)	–	111,792
Provision for loss on investment in exploration rights (Note 3)	(274,001)	(1,260,399)
Loss before extraordinary item	(502,534)	(1,300,083)
Gain on sale of mining assets (Note 2)	–	21,492
Gain on disposal of property held for resale	25,618	–
Net loss	$ (476,916)	$(1,278,591)
Loss per share		
Loss before extraordinary item	(15¢)	(40¢)
Net loss	(15¢)	(39¢)

Consolidated Statement of Deficit

	Year Ended December 31 1978	1977
Retained earnings (deficit) at beginning of year	$ (224,823)	$1,053,768
Net loss	(476,916)	(1,278,591)
Deficit at end of year	$ (701,739)	$ (224,823)

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1978	1977
Working Capital Derived from		
Operations	$ —	$ 13,694
Reduction in non-current receivable on sale of mining assets	233,400	862,300
Issue of capital stock for cash	—	15,000
Sale of mining assets	—	21,492
Sale of property held for resale	93,267	—
	326,667	912,486
Working capital applied to		
Operations	193,894	—
Acquisition of interests in petroleum and natural gas properties and rights	148,414	2,308,400
Cost of shares of subsidiary company acquired, less its working capital	—	190,202
Additions to fixed assets	7,455	1,241
Expenditures on property held for resale	994	3,126
Acquisition of mining properties	2,500	8,020
Deferred exploration and development expenditures	—	1,924
	353,257	2,512,913
Decrease in working capital	(26,590)	(1,600,427)
Working capital at beginning of year	995,060	2,595,487
Working capital at end of year	$ 968,470	$ 995,060

Auditors' Report

To the Shareholders of
Manitou-Barvue Mines Limited

We have examined the consolidated balance sheet of MANITOU-BARVUE MINES LIMITED as at December 31, 1978 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination of the financial statements of Manitou-Barvue Mines Limited was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The 1977 financial statements of Manitou-Barvue Mines Limited were reported on by other auditors. We have relied upon the the reports of Ernst & Ernst, the auditors who examined the financial statements of the subsidiaries Cambro Petroleum & Minerals Limited and Quebec Manitou Mines Limited.

With respect to Cambro Petroleum & Minerals Limited the auditors reported in part as follows:

> The value of the royalty rights recorded on the balance sheet at a value of $274,000 is subject to the continued active participation by the parties to the original exploration agreements in the development of the area described in note 3(b)(ii), to the successful commercial discovery of hydrocarbons in and the exploitation of that area and to the assignment of satisfactory title.

With respect to Quebec Manitou Mines Limited, the auditors reported in part as follows:

> . . . subject to the future commercial success of mining properties and rights and related deferred exploration and development expenditures described in Notes 4 and 5 . . .

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the matters referred to in the preceding paragraphs, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Leebosh, April, Curtis & Arbess
Chartered Accountants

Montreal, Canada
March 16, 1979

Notes to Consolidated Financial Statements

Year Ended December 31, 1978

1. Accounting Policies

a) Basis of presentation

(i) In October, 1977 the company acquired an additional 1,572,000 shares of Quebec Manitou Mines Limited for $645,759 cash. As a result of this transaction the company increased its interest in Quebec Manitou from 33% to 69% and accordingly the accounts of Quebec Manitou have been consolidated from that date. The transaction has been accounted for by the purchase method.

Net assets acquired, at book values:		
Total assets		
Current		$ 465,557
Other		943,005
Excess of the cost of the shares of the subsidiary over their book value (Note 6)		242,286
		1,650,848
Total liabilities	$ 36,300	
Minority interest	433,151	$ 469,451
		$1,181,397
Represented by		
Cash consideration		$ 645,759
Net book value of shares of subsidiary, previously accounted for on the equity basis		535,638
		$1,181,397

The holding of Quebec Manitou Mines Limited of shares of the company has been deducted from shareholders' equity (Note 6), and earnings per share are based on the shares outstanding other than those held by Quebec Manitou Mines Limited.

(ii) In December, 1977 the company acquired, for nominal consideration, all of the outstanding shares of Cambro Petroleum & Minerals Limited, an inactive company incorporated under the laws of the Cayman Islands, for the purpose of participating in oil and natural gas exploration, initially in the offshore Cameroon area. The accounts of this subsidiary are also consolidated herein.

b) Foreign exchange

The accounts of Cambro which are maintained in U.S. currency are translated as follows:

(i) Current assets and liabilities at the exchange rate prevailing at the year end.

(ii) All other assets at the date the assets were acquired.

(iii) Income and expenses at the average rate for the year.

c) Mining properties and rights, interest in petroleum and natural gas properties and rights, and related expenditures.

Expenditures on resource exploration programmes are deferred on a specific project basis until the viability of the project is determined. If a project is discontinued, the accumulated project costs are charged to income. If a project is developed, the related accumulated costs are amortized against future income from that project.

d) Deferred income taxes

Deferred income taxes arise in a subsidiary company from claiming exploration and development expenditures for tax purposes before amortization in the accounts.

2. Sale of Mining Assets

As a result of the sale in August, 1976 of substantially all of its mining operations in Bourlamaque Township, Quebec, the accounts of the company reflect:

a) A note receivable from the purchaser in the principal amount of $650,000, bearing interest at prime bank rate effective from time to time and maturing on February 10, 1978 (subsequently received).

b) A guaranteed royalty and imputed interest receivable as to $250,740 on or before December 30, 1978 (subsequently received) and as to $164,090 on or before August 10, 1979. Imputed interest at 10% is being taken into income as the royalty is received.

c) A 50% interest retained in certain mining claims contiguous to the mining property, carried at nominal value (Note 4).

d) Rental income arising from the leasing of certain mining equipment to the purchaser for a term of three years, at a rental of $40,000 per annum. The net book value of the equipment, as at the date of commencement of the lease, is being depreciated over its term.

The 1977 income from discontinued mining operation and gain on sale of mining assets are adjustments of the previous year arising from the final determination of accruals.

Additionally, the company is entitled to a royalty of 75 cents per ton on any tonnage mined by the purchaser in excess of 300,000 tons, such royalty to be indexed to the Consumer Price Index commencing 12 months after the 300,000th ton is mined. During 1978 the purchaser discontinued these mining operations.

3. Interests in Petroleum and Natural Gas Properties and Rights, and Related Amounts Payable

Details of these interests are as follows:

	Cost or written down value	Related amount payable
a) Canada		
Participation in a limited partnership formed to carry out petroleum and natural gas exploration in Alberta and British Columbia	$ 500,000	$ 200,000
Interests in four petroleum and natural gas prospects in Alberta and British Columbia	148,414	–
	$ 648,414	$ 200,000
b) United Republic of Cameroon		
(i) Exploration rights, less amount written off	NIL	NIL
(ii) Royalty rights (U.S. $250,000)	274,000	NIL
	$ 274,000	$ NIL

a) Canada
By agreement dated August 25, 1977 the company entered into a limited partnership known as the Sabre Resource Program for the purposes as set out above. The contributions of $200,000 payable at December 31, 1978 are secured against bank deposit receipts.

b) United Republic of Cameroon
(i) Exploration rights
(1) By Convention dated January 12, 1976 made between Normafrique, a Cameroonian limited liability company and the Government of the United Republic of Cameroon, Normafrique acquired the exclusive rights to explore for hydrocarbons covered in an area designated as permit H of the United Republic of Cameroon. Pursuant to an agreement and an assignment dated December 14, 1977 made between the company's subsidiary, Cambro, and Seagull International Exploration, Inc., a Delaware corporation, Seagull International agreed to assign to Cambro, for an amount of U.S. $1,150,000 all of its interest, being the right to an undivided 8% interest under and pursuant to a joint venture agreement dated July 23, 1976 entered into by Anadarko Cameroon, Inc., a Delaware corporation, Normafrique, Seagull International and Norminol A/S, a Norwegian corporation.
Seagull International acknowledged that it was also acting for Isca Limited, a company incorporated in the Cayman Islands. The right to the 8% interest was owned 60% by Seagull International and 40% by Isca. The joint venture was formed for the purpose of exploring for hydrocarbons in the said area designated as permit H. Pursuant to the provisions of this joint venture agreement the interest acquired by Cambro from Seagull International and Isca was to be carried through, at no additional cost to Cambro, to the completion of the first exploration well. The operator of the

joint venture was designated as Anadarko.

(2) Prior to authorizing the investment in the right to the 8% interest, the company obtained an independent report from Geoquest International, Inc., a firm of oil and gas consulting engineers of Houston, Texas, U.S.A. The estimated value of this investment set out in the report was predicated on a well being drilled (Note 3(i)(4)).

(3) Seagull International assigned the interest of Seagull International and Isca to Cambro for a payment of U.S. $115,000 at the time of the assignment and the balance of the price in the amount of U.S. $1,035,000 was paid in 1978.

(4) Under the terms of the joint venture agreement dated July 23, 1976, as amended, Anadarko, Normafrique, Seagull International (i.e. Cambro, by virtue of the assignment from Seagull International) and Norminol were entitled, but not obligated, to drill a test well by April 23, 1978. On or about April 18, 1978 Anadarko, which had the sole right under the joint venture agreement to determine whether or not to drill, elected not to drill the test well and consequently in accordance with its terms the joint venture agreement terminated and all rights reverted back to Normafrique, subject to the Convention dated January 12, 1976.

(5) Cambro has no title to the exploration rights and accordingly the value of this investment has been written off at December 31, 1978. A loss of U.S. $1,149,999 (Canadian $1,260,399) had been provided for in the 1977 financial statements.

(ii) Royalty rights

(1) By means of various assignments Cambro acquired certain royalty rights for an amount totalling U.S. $500,000 (Canadian $548,000) consisting of an interest totalling 1% of any and all amounts received by Denison Mines Limited from production of hydrocarbons attributed to a 49.5% interest that Denison owned as of August 27, 1976 in the "Cameroon area" (such area being referred to in an agreement dated June 30, 1976, as amended, between Denison and Oceanic Exploration Company), insofar only as the areas described in the following Permis de Recherches are concerned:

(i) Permis de Recherches designated by Decree No. 73/482 dated August 25, 1973 made by and between the Government of the United Republic of Cameroon and Oceanic Exploration Co. of West Africa covering the area known as Oceanic I Offshore Cameroon, and

(ii) Permis de Recherches designated by Decree No 73/637 dated October 12, 1973 made by and between the Government of the United Republic of Cameroon and Oceanic Exploration Co. of West Africa covering the area known as Oceanic II Offshore Cameroon.

(2) Under the terms of an agreement dated July 13, 1977 between Denison, Oceanic Exploration Company, Elf Serepca S.A. and Wintershall Aktiengesellschaft, Denison agreed to assign out of its 49.5% interest covering Oceanic I a 29.7% interest to Elf and Wintershall. By letter agreements dated February 20, 1978, Denison agreed to pay to the company or its assignee from money that it receives from its remaining 19.8% interest in Oceanic I a royalty interest equal to 1% of the original 40.5% (.495%).

(3) A well was drilled on Oceanic I but abandoned on February 27, 1978 and the area of Oceanic I has been reduced by relinquishment so that the present area is 50% of the original area. This area can be held until August, 1981 provided further exploration monies are spent. The acreage must then be reduced in 1981 by a further 25% and in order that it may be held for a further four years additional

exploration monies must be spent.

(4) The Permis de Recherches applying to Oceanic II expired in February, 1978 and consequently the acquired royalty rights attaching to this area are no longer valid.

(5) In view of the matters referred to in paragraphs 3(ii)(3)&(4) a provision of U.S. $250,000 (Canadian $274,000) has been recorded at December 31, 1978 to reduce the carrying value of the royalty rights to U.S. $250,000 (Canadian $274,000).

(iii) Other

At the time the above exploration and royalty rights were acquired none of the vendors were related to the company, Cambro, their officers or directors. Subsequently Seagull Petroleum Limited, a company incorporated under the laws of the Bahamas (and the parent company of Seagull International), through a purchase of assets from Mr. W. Bruce Hansen, an officer of the company since October, 1977 and a director since May, 1978, placed itself in a position from which it could effectively control the company. The events leading to this position were as follows:

(1) Mr. Hansen, acting on behalf of himself and others, loaned during September, 1977, $1,000,000 to Westmont Capital Resources Limited, a company incorporated under the laws of British Columbia, to assist Westmont in its acquisition during October, 1977 of 748,902 shares of the company. (Westmont had purchased previously 130,000 shares and held a total of 878,902 shares, which constituted effective control of the company). The loan was evidenced by a demand note bearing interest at 11% per annum and the 878,902 shares were pledged as collateral security.

(2) On June 12, 1978, Mr. Hansen sold to Seagull Petroleum and its associate in this matter, Isca Limited, the interest in the Westmont demand note and the rights, title and interest in the pledge agreement with Westmont relating to the collateral security. Seagull Petroleum subsequently exchanged the demand note and related accrued interest thereon for 748,902 shares of the company (see Note 3 (b)(i)).

(3) On February 19, 1979, Agassiz Resources Ltd. purchased 748,902 shares of the company from Seagull Petroleum. The president of the company is also president of both Agassiz and Cambro.

4. Mining Properties and Rights

Mining properties and rights consist of the following:

		1978	1977
a)	a fixed 17½% non-assessable interest in 55 claims in Langmuir Township, Ontario, at net cost	$ 18,464	$ 18,464
b)	24 mining claims in Bourlamaque Township, Quebec, at costs to date	213,804	213,804
c)	option to explore and develop 20 claims in Duplessis Township, Quebec, at cost. The option expires on May 1, 1979 by which time an election may be made to bring the claims into production and to pay the optioner a royalty of 15% of mining profits	5,355	5,355
d)	a 50% undivided interest in 50 mining claims in Desherbiers Township, Quebec at cost	10,520	8,020
e)	a 50% undivided interest in 19 mining claims in Bourlamaque Township, Quebec retained pursuant to the sale of the mining operation, at nominal value (See Note 2) (See below)	1	1
		$ 248,144	$ 245,644

On November 14, 1977, the company entered into an agreement with the purchaser of its mining operation pursuant to which they are to carry out a joint exploration programme at a projected cost of $50,000. During 1978 the program was abandoned.

5. Recovery of Costs

Recovery of the costs of mining properties and rights, interest in petroleum and natural gas properties and rights, and related expenditures deferred is dependent upon the development of reserves of sufficient economic value to enable profitable operations to be attained.

6. Shareholders' Equity

The accounts reflect a deduction from shareholders' equity in respect of 554,427 shares of the company held by Quebec Manitou Mines Limited, at the value assigned thereto as follows:

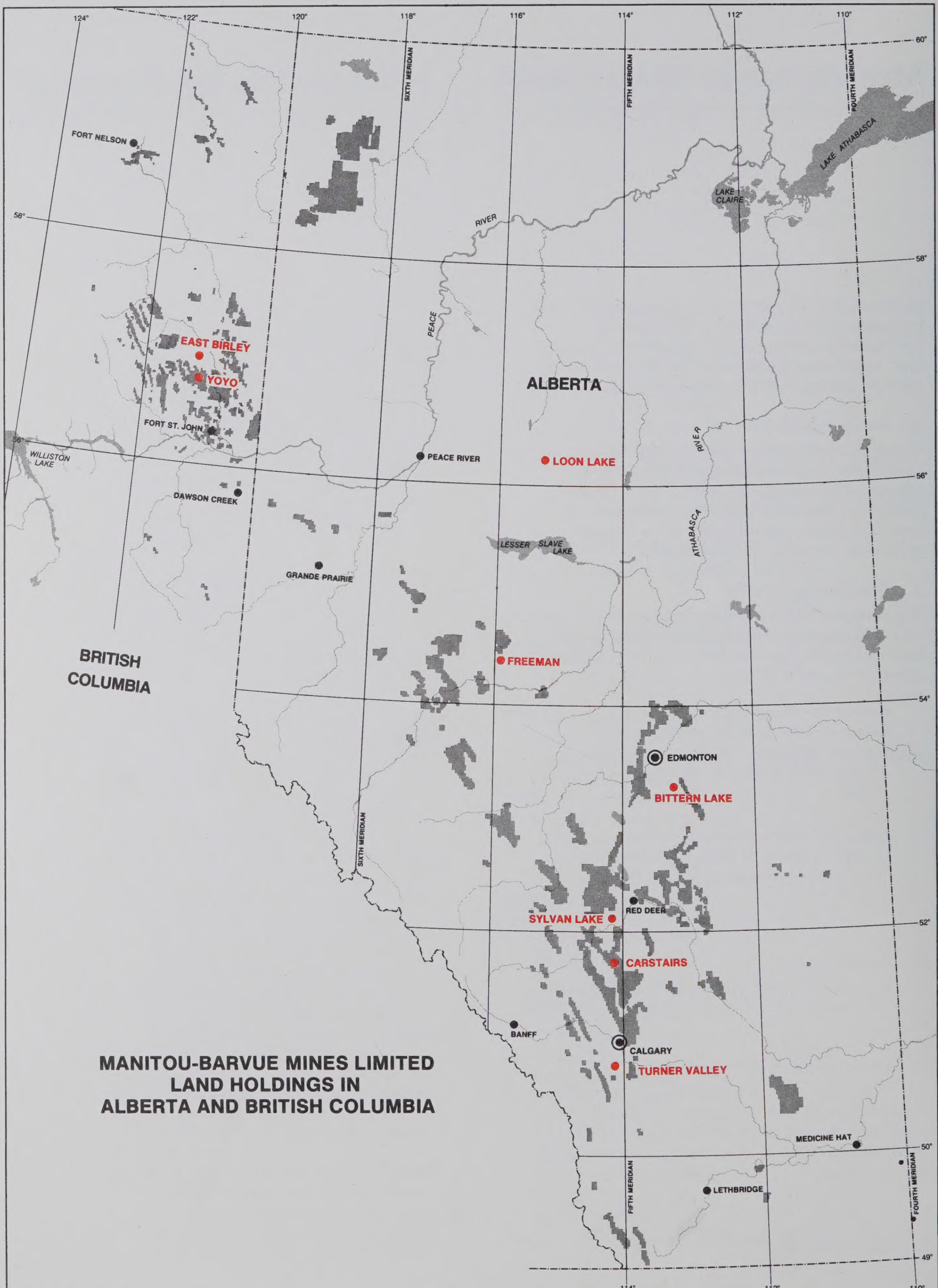
Cost of the shares to Quebec Manitou	$188,441
Excess of the cost to the company of its shares of Quebec Manitou over their book value at date of acquisition (Note 1(a))	242,286
	430,727
Company's share of gain on sale of 400,000 shares of the company realized by Quebec Manitou prior to October, 1977	112,582
	$318,145

7. Income Taxes

At December 31, 1978, the company has substantial amounts available for deduction from future taxable income.

8. Other Statutory Information

Direct remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to $142,150 in 1978 ($266,901 in 1977 including $125,000 paid as retiring allowance to a former officer).



MANITOU-BARVUE MINES LIMITED
LAND HOLDINGS IN
ALBERTA AND BRITISH COLUMBIA

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